# CHANNEL AREA LOGGERS LTD.

## ANNUAL REPORT

## 1982 -1983

CHANNEL AREA LOGGERS LTD.

BOARD OF DIRECTORS

J. Christensen - Chairman
President, Swan Equipment Ltd.

B. E. Seppala
Industrial Relations Forester
Department of Natural Resources

A. Graham
General Merchant, Berens River, Manitoba

J. N. Tod
Retired Logging Entrepreneur

M. Keil
Special Assistant to the Chairman
and General Manager of C.E.D.F.

H. J. Jones
General Manager, C.E.D.F.

M. Prendiville
President, Prendiville Industries Ltd.

## OFFICERS

J. Christensen
President

G. P.Trithart
Secretary/Treasurer

J. Benoit
Consultant to the Board of Directors
(formerly General Manager)

G. Kemp
Manager

HEAD OFFICE: Berens River, Manitoba

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For Year Ended March 31, 1983.

# ANNUAL REPORT - CHANNEL AREA LOGGERS LTD.
## APRIL 1, 1982 - MARCH 31, 1983

## I. INTRODUCTION

Channel Area Loggers Ltd. is a Crown Corporation which was established in 1973 under the Manitoba Natural Resources Development Act to provide, as a principal objective, an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

The Corporation conducts pulpwood harvesting operations on the east side of Lake Winnipeg where a valuable forestry resource exists and where there is a serious lack of employment opportunities.

The Company uses skidders to harvest spruce pulpwood in eight foot lengths for sale to Abitibi-Price Inc. at Pine Falls. Abitibi-Price Inc. accepts delivery of the pulpwood at barge landing on the east side of Lake Winnipeg. The product is used to produce newsprint at their Pine Falls mill.

The Corporation suffered a series of losses totaling $1,578,674 in its first nine years of operation. The profit/loss for the last four fiscal years ending March 31st are shown below and indicate a period of progressive recovery.

| | Profit | Loss |
|---|---|---|
| 1980 | | $278,011 |
| 1981 | | 173,487 |
| 1982 | | 17,262 |
| 1983 | $38,976 | |

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## II. SYNOPSIS OF THE YEAR'S EVENTS

For the first time since its inception, Channel Area Logggers Ltd. earned a profit of $38,976 in 1982/83. While the profit is small when compared to the accumulated losses of $1,578,674 over the past nine years, it nevertneless represents an important achievement.

Credit for this accomplishment must be attributed largely to James Benoit, the General Manager of Channel Area Loggers Ltd Through his tireless efforts over the past two years, Mr. Benoit built a productive logging organization wnicn nas demonstrated that viability is possible. His exemplary services should provide incentive to all concerned. His achievements were capably supported by the community of Berens River, the Board of Directors and most important of all, the Company's employees who worked very hard

During the latter part of the fiscal year, Mr. Benoit decided to retire and a local Berens River resident, George Kemp, was appointed Manager. Mr. Benoit was retained on a consulting basis

Fires have played a negative role over the past few years by depleting pulpwood inventory in the surrounding area (30 mile radius). This has reduced the annual allowable cut of spruce in the area from approximately 30,000 cords some 4 years ago to under 20 000 cords by fiscal year end. In addition, fires burned two of the Company's house trailers and contents (value $42,000) during the year and in a separate incident, 694 cords of tree length pulpwood valued at $13,000 was burned. Both losses were insured.

Economic conditions prevalent in the pulp and paper industry for the last two consecutive years resulted in limitations on the Company's sale of pulpwood. These conditions necessitated a carry over of 6,100 cords into fiscal 1982/83, thus, limiting sales of current year production to 12,400 cords as Abitibi-Price Inc. agreed to purchase a maximum of 18,500 cords.

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An outside Contractor was retained during the year to ensure adequate production levels. His services were, however, limited to mechanical felling and slashing. This enabled local owner/operators to skid all the production to roadside without having the laborious task of bucking and piling.

A Timber Inventory Survey was commenced during the year to assess spruce pulpwood inventories for future cutting operations. This is being undertaken annually during the unproductive summer seasons.

Of the eleven skidder owner/operators developed to date, two have failed and their equipment has been retained by the Company.

Mr. Abe Penner, Vice-President and member of the Board of Directors, resigned after providing nine years of valuable service to the Company.

The Company now uses the metric system for scaling pulpwood.

## III. REVIEW OF RESULTS

### A. Financial Results

Appended are audited financial statements for fiscal year 1982/83 as prepared by the Provincial Auditor. These statements report a profit of $38,976 for 1982/83 compared to a loss of $17,262 for the previous year.

Improvement in the financial position of the Company is partially attributable to a $33,517 gain on fire insurance claims (items insured at replacement value rather than undepreciated value) and to Provincial Government assistance related to interest of $28,831 on inventory carried over from the previous year. These gains were partially offset by uncontrollable increase in the cost of goods and services.

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Following is a table which illustrates per cord costs for major expenditure categories over the past two years.

| Cost Category | 1982-83 | 1981-82 | Increase(Decrease) |
|---|---|---|---|
| Cutter & Contract Wood | $ 31.26 | $ 30.28 | $ .98 |
| Transportation | 13.11 | 13.16 | (.05) |
| Company Equipment and Maintenance | 2.44 | .82 | 1.62 |
| Roads | 7.12 | 8.37 | (1.25) |
| Kitchens & Dorms. | 1.72 | 2.01 | (.29) |
| General & Administration | 13.22 | 10.51 | 2.71 |
| Supervision-Bush | .75 | 1.44 | (.69) |

Per cord cost increases in the company equipment and maintenance and the general and administrative categories are due to volume decreases whereas cutter and contract wood cost increases result from increased fuel costs, etc. The decrease in road costs is primarily due to reduced maintenance costs for the Company's bulldozer. The decline of $.69 per cord in bush supervision costs reflects a change in the management structure.

B. Production

An outline of production (in cords) for the past three years and delivered pulpwood for the past four years are included in the following tables.

Annual Pulpwood Production in Cords
For the Years Ending

| | Mar. 31/81 | Mar. 31/82 | Mar.31/83 |
|---|---|---|---|
| Strip Production. | | | |
| - Cut, Pile & Forward | 1,568 | - | 407 |
| Contractors: | 2,506 | 9,479 | - |
| Skidder Production | | | |
| - Owner/Operators | 15,018 | 17,781 | 12,593 |
| TOTAL | 19,092 | 27,260 | 13,000 |

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Annual Delivered and Sold Pulpwood Volume in Cords
As at March 31st

| | |
|---|---|
| 1983 | 19,000 |
| 1982 | 22,000 |
| 1981 | 19,151 |
| 1980 | 18,542 |

Production was cut back in 1982/83 due to inventory carry over from 1981/82, the high cost of financing pulpwood ($4.81 per cord in 1982), and a contract limit of 18,500 cords set by Abitibi-Price Inc. Due to the fact that stocks of pulpwood which are feasible to cut in the summer are all but depleted in the cutting area, the cutting season has been shortened considerably. A standing timber (spruce) inventory survey is now underway to locate an area which will support 7 - 9 months of production annually.

Increased mechanization has had a favourable effect on the Company's financial position and that of many of the local entrepreneurs. While this is predictable, careful consideration will have to be given to the long run impacts on local employment needs. This situation is evidenced by the very low level of strip cutting (no strip cutting in 1981-82 and only 407 cords in 1982-83).

Absenteeism and staff turnover continue to be major factors affecting production levels.

C. Other Benefits

The Corporation employed a total of 36 people in 1982/83 with wages and benefits totaling $154,165 compared to $486,210 in 1981-82. Payments to and on behalf of contractors, including wages, amounted to $469,654 in 1982-83 compared to $754,112 in 1981-82. Some 45% of total wages were to residents of Berens River and another 30% to individuals of Indian ancestry from other areas of the Province.

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The Corporation is the second largest employer in the Berens River area. Only commercial fishing employs more men.

The Corporation maintains a commissary and grocery store facility for employees. This facility provides a variety of food products, confectionary items and winter clothing, in addition to an order office for skidder and power saw parts.

D. Training

The Corporation continues to provide on the job training. However, a shortage of training funds makes it difficult to acquire adequate facilities and to retain persons able to provide training.

E. Other Developments

The Province provides a Secretary to the Board of Directors of the Corporation.

In addition to the subsidy of $17,259 provided for operational losses incurred during 1981-82, the Province also provided $77,012 in assistance as outlined in Note 10 of the Provincial Auditor's Report.

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

CHANNEL AREA LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1983 and the statement of revenues and expenditures, the statement of changes in financial position and the schedules of operating expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Channel Area Loggers Ltd. as at March 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, on a basis consistent with that of the preceding year.

W. K. Ziprick, C.A.,
Provincial Auditor.

September 27, 1983,
Winnipeg, Manitoba.

Exhibit A

## CHANNEL AREA LOGGERS LTD.

(Incorporated Under The Corporations Act, Manitoba)

Balance Sheet as at March 31, 1983
(with 1982 figures for comparison)

### ASSETS

| | 1983 | 1982 |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash on hand and in bank | $ 12,997 | $ - |
| Accounts receivable (Note 2) | 84,573 | 116,225 |
| Subsidy receivable from the Province of Manitoba | - | 17,262 |
| Inventories (Note 3) | 103,442 | 397,516 |
| Prepaid expenses | 1,714 | 18,176 |
| Total current assets | 202,726 | 549,179 |
| **FIXED ASSETS (Note 4)** | 585,868 | 544,027 |
| Less accumulated depreciation and amortization | 317,320 | 298,270 |
| Net fixed assets | 268,548 | 245,757 |
| **GUARANTEE DEPOSIT WITH THE PROVINCE OF MANITOBA** | 900 | 900 |
| **DEFERRED EXPENDITURES - Timber Inventory Survey (Note 10)** | 16,558 | - |
| **TOTAL** | $ 488,732 | $ 795,836 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Excess of outstanding cheques over bank balances | $ - | $ 59,668 |
| Bank demand loan (Note 5) | 45,000 | 240,000 |
| Accounts payable (Note 6) | 88,108 | 196,078 |
| Total current liabilities | 133,108 | 495,746 |
| **DEFERRED REVENUE - Assistance from Province of Manitoba (Note 10)** | 16,558 | - |
| **SHAREHOLDERS' EQUITY:** | | |
| Capital stock: | | |
| Authorized: 35,000 common shares, maxium consideration not to exceed $350,000 | | |
| Issued: 30,009 shares | 300,090 | 300,090 |
| Retained earnings | 38,976 | - |
| | 339,066 | 300,090 |
| **TOTAL** | $ 488,732 | $ 795,836 |

Approved by the Board:

Director _____

Director _____

The accompanying notes are an integral part of the financial statements.

Exhibit B

## CHANNEL AREA LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1983
(with 1982 figures for comparison)

| | 1983 | 1982 |
|---|---|---|
| **REVENUES:** | | |
| Pulpwood sales | $ 1,213,484 | $ 1,411,495 |
| Commissary sales | 121,052 | 52,000 |
| Miscellaneous | 6,415 | 22,720 |
| | 1,340,951 | 1,486,215 |
| **EXPENDITURES:** | | |
| Direct logging costs (Schedule 1) | 1,101,191 | 1,229,800 |
| General and administrative (Schedule 2) | 170,468 | 231,258 |
| Commissary (Note 9) | 103,546 | 41,041 |
| | 1,375,205 | 1,502,099 |
| | (34,254) | (15,884) |
| **OTHER INCOME AND EXPENSES:** | | |
| Gain on fire insurance claims | 33,517 | - |
| (Loss) on disposal of fixed assets | (2,615) | (1,375) |
| | 30,902 | (1,375) |
| Excess (deficiency) of revenues over expenditures before operating assistance from the Province of Manitoba | (3,352) | (17,259) |
| Operating Assistance from the Province of Manitoba - General subsidy | - | 17,259 |
| - Specific subsidy (Note 10) | 42,328 | - |
| **EXCESS OF REVENUES OVER EXPENDITURES** | $ 38,976 | $ - |

The accompanying notes are an integral part of the financial statements.

Exhibit C

CHANNEL AREA LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1983
(with 1982 figures for comparison)

| | 1983 | 1982 |
|---|---|---|
| SOURCE OF WORKING CAPITAL: | | |
| Excess of revenues over expenditures | $ 38,976 | $ - |
| Charges to operations not involving an outlay of funds: | | |
| Depreciation and amortization | 50,400 | 65,249 |
| Loss on sale of fixed assets | 2,615 | 1,375 |
| Proceeds from sale of fixed assets | 4,060 | 1,900 |
| Book value of fixed assets realized on fire insurance claim | 7,402 | - |
| | 103,453 | 68,524 |
| USE OF WORKING CAPITAL: | | |
| Purchase of fixed assets | 87,268 | 10,565 |
| INCREASE IN WORKING CAPITAL FOR THE YEAR | 16,185 | 57,959 |
| WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR | 53,433 | (4,526) |
| WORKING CAPITAL AT END OF THE YEAR | $ 69,618 | $ 53,433 |

The accompanying notes are an integral part of the financial statements.

Schedule 1

CHANNEL AREA LOGGERS LTD.

Schedule of Direct Logging Costs
for the year ended March 31, 1983
(with 1982 figures for comparison)

| | 1983 | 1982 |
|---|---|---|
| INVENTORY AT BEGINNING OF THE YEAR | $ 304,422 | $ 38,612 |
| PRODUCTION EXPENSES: | | |
| Cutters wages and fringe benefits | 86,675 | 322,313 |
| Contract wood | 316,556 | 528,573 |
| Transportation: | | |
| Contract hauling to landing | 153,098 | 225,539 |
| Forwarding to roadside | 9,264 | 16,230 |
| Freight and fuel movement | 8,684 | 14,286 |
| Personnel transport | 24,218 | 10,275 |
| Road construction and maintenance, net | 91,807 | 177,484 |
| Timber dues | 38,101 | 68,492 |
| Supervision | 9,586 | 40,259 |
| Repairs and maintenance | 31,455 | 47,652 |
| Insurance | 5,073 | - |
| Other | 177 | 203 |
| Net kitchen and dormitory expenses | 22,075 | 44,304 |
| Total production expenses | 796,769 | 1,495,610 |
| INVENTORY AT END OF THE YEAR | - | 304,422 |
| DIRECT LOGGING COSTS, EXHIBIT B | $ 1,101,191 | $ 1,229,800 |

Schedule 2

## CHANNEL AREA LOGGERS LTD.

### Schedule of General and Administrative Expenses
### for the year ended March 31, 1983
### (with 1982 figures for comparison)

| | 1983 | 1982 |
|---|---|---|
| Salaries, wages and fringe benefits | $ 57,904 | $ 63,531 |
| Interest and service charges | 59,211 | 63,718 |
| Travel and accomodation | 6,478 | 11,512 |
| Mobile home | 11,908 | 18,396 |
| Communications | 5,461 | 5,566 |
| Bad debts | (14,060) | 31,695 |
| Truck | - | 861 |
| Legal, audit and accounting | 24,133 | 17,187 |
| Directors' travel and accomodation | 1,799 | 2,890 |
| Directors' fees | 3,193 | 3,243 |
| Office supplies and utilities | 4,014 | 6,756 |
| Taxes, licences and fees | 1,641 | 2,539 |
| Insurance | 940 | 1,901 |
| Room and board | 7,649 | - |
| Miscellaneous | 197 | 1,463 |
| Total general and administrative expenses | $ 170,468 | $ 231,258 |

Schedule 3

CHANNEL AREA LOGGERS LTD.

Schedule of Net Commissary Income
for the year ended March 31, 1983
(with 1982 figures for comparison)

| | 1982 |
|---|---|
| COMMISSARY SALES | $ 52,000 |
| COST OF MATERIALS: | |
| Inventory at beginning of the year | 11,884 |
| Purchases | 36,301 |
| | 48,185 |
| Inventory at end of the year | 8,562 |
| Total cost of materials | 39,623 |
| EXPENSES: | |
| Wages | 1,304 |
| Miscellaneous | 114 |
| Total expenses | 41,041 |
| Net commissary income | $ 10,959 |

Schedule 4

## CHANNEL AREA LOGGERS LTD.

### Schedule of Net Kitchen and Dormitory Expense
### for the year ended March 31, 1983
### (with 1982 figures for comparison)

| | 1982 |
|---|---|
| KITCHEN AND DORMITORY: | |
| Cost of food: | |
| Inventory at beginning of the year | $ 9,905 |
| Purchases | 58,251 |
| | 68,156 |
| Inventory at end of the year | 9,011 |
| Total cost of food | 59,145 |
| Wages | 11,151 |
| Utilities, maintenance and other | 5,072 |
| Insurance and depreciation | 13,734 |
| Total expense | 89,102 |
| DEDUCT FOOD AND BOARD RECOVERIES | (44,798) |
| Net kitchen and dormitory expense | $ 44,304 |

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1983

1. Accounting Policies

The accounting policies of the company are in accordance with generally accepted accounting principles and their basis of application is consistent with that of the preceding year.

Inventories:

Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets:

Fixed assets are stated at cost. It is the company's policy to provide for depreciation and amortization of fixed assets on the basis shown in note 4.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

2. Accounts Receivable

The major categories of accounts receivable are:

| | 1983 | 1982 |
|---|---|---|
| General | $ 50,490 | $ 40,663 |
| Government of Manitoba | 10,408 | - |
| Government of Canada and Manitoba - Special A.R.D.A. grants | 9,450 | 9,450 |
| Contract cutters | 14,225 | 66,112 |
| | $ 84,573 | $ 116,225 |

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1983

| | 1983 | 1982 |
|---|---|---|
| **3. Inventories** | | |
| The major categories of inventory are: | | |
| Pulpwood | $ - | $ 304,422 |
| Other: | | |
| Commissary supplies | 5,730 | 8,562 |
| Chain saws | 3,822 | 3,581 |
| Parts and supplies | 16,095 | 6,083 |
| Gasoline and oil | 74,391 | 65,857 |
| Kitchen supplies | 3,404 | 9,011 |
| | 103,442 | 93,094 |
| | $ 103,442 | $ 397,516 |

**4. Fixed Assets**

The major categories of fixed assets and related accumulated depreciation and amortization at March 31, 1983 are:

| | Cost | Accumulated Depreciation and Amortization | Rates |
|---|---|---|---|
| Buildings and Trailers | $ 187,362 | $ 67,011 | 10-33 1/3% |
| Machinery and Equipment | 364,560 | | |
| Less: Funded by the Province of Manitoba (Note 10) | 35,385 | | |
| | 329,175 | 185,128 | 20 - 30% |
| Main Logging Road | 69,331 | 65,181 | 3-5 years straight line |
| | $ 585,868 | $ 317,320 | |

It is the company's practice to provide for depreciation of buildings, trailers, machinery and equipment under the declining balance basis at the rates shown above and to provide for the amortization of the main logging road on the straight line basis over 3 to 5 years. The total amount so provided for the current was $50,400 (1982 - $65,249).

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1983

5. Bank Demand Loan

The bank demand loan is guaranteed by the Province of Manitoba to a maximum of $500,000 including unpaid interest.

6. Accounts Payable

The major categories of accounts payable are:

| | 1983 | 1982 |
|---|---|---|
| Trade | $ 41,100 | $ 136,947 |
| Wage deductions | 1,905 | 6,511 |
| Employees | 3,500 | 17,315 |
| Province of Manitoba | 41,603 | 35,305 |
| | $ 88,108 | $ 196,078 |

7. Capital Stock

The issued shares are held by the Province of Manitoba except for eight shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

8. Services Provided by the Province

The Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company.

9. Comparative Figures

Comparative figures for the year ended March 31, 1982, have been restated where necessary to conform with the presentation adopted for the year ended March 31, 1983. However, the 1981-82 figures for the commissary operations have not been restated. The commissary operation for 1982-83 recorded all items supplied to contract cutters as sales whereas in 1981-82 similar items supplied were credited against inventory accounts with any profits credited to miscellaneous revenue.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1983

10. Assistance from the Province of Manitoba

The Province of Manitoba provided financial assistance amounting to $94,271 to the Company in the form of an operating subsidy of $42,328 and a capital subsidy of $51,943 during the year ended March 31, 1983. The operating subsidy was provided for the following specific expenditures:

1. interest of $28,831 on the additional $300,000 bank loan which was used to finance the March 31, 1982 wood inventory.

2. transportation and maintenance costs of $13,497 associated with the Company's strip cutting operations.

The capital subsidy was provided for the following:

1. The Province of Manitoba contributed $35,385 towards the acquisition of machinery and equipment.

   The contribution was for the following:

   a) a contribution of $28,393 as reimbursement to the Company for costs associated with the acquisition of two skidder machines, resulting from the default on loans by two contract cutters. The loans to the cutters were for the purchase of the skidder machines.

   b) a contribution of $6,992 for the purchase of equipment associated with the Timber Inventory Survey.

2. The Province of Manitoba contributed $16,558 for a Timber Inventory Survey which is being conducted to assess wood inventories for planning future cutting operations.